



Mary Taylor, CPA
Auditor of State

**CITY OF KENTON
HARDIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Kenton
Hardin County
P.O. Box 220
Kenton, Ohio 43326

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin, County, as of December 31, 2008, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis and the respective budgetary comparisons for the General Fund and the Street Fund are not a required part of the basic financial statements, but are supplementary information the *Governmental Accounting Standards Board* requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 11, 2009

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)**

The discussion and analysis of the City of Kenton's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the cash basis financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's total receipts exceeded total expenditures by \$234,266 for the year, resulting in an increase in total net assets of 8.9% over the previous year. The increase is attributed to the City's operation of business-type activities.
- During 2008, the City agreed to participate with the Ohio Department of Transportation (ODOT) in a highway improvement project involving the five state routes that converge inside the city limits. ODOT will provide 80% of the cost of grinding and paving of asphalt, maintenance of traffic and mobilization. The City will pay the remaining 20% as well as 100% of construction costs for curbs, sidewalks, etc. The City has been approved for a 0% interest loan through Ohio Public Works Commission to meet their share of the costs. This project should be completed by late summer 2009.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's cash basis of accounting.

This annual report consists of four parts as follows:

Government-Wide Financial Statements: The Statement of Activities and Net Assets – Cash Basis (on pages 10-11) provides information about the activities of the City government-wide (or "as a whole") and present a longer-term view of the City's finances.

Fund Financial Statements: Fund financial statements (starting on page 12) focus on the individual parts of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the water and sewer services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the General and Street Funds Budgetary Comparison Schedules (starting on page 33) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the City of Kenton is fiscally responsible.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the City as a whole begins on page 5. The government-wide financial statements are presented on pages 10 and 11. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information about the City as a whole and about its activities in a way that helps answer this question.

This statement reports the City's net assets and changes in them. Keeping in mind the limitations of the cash basis of accounting, you can think of the City's net assets as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement Activities and Net Assets, we divide the City into two kinds of activities:

Governmental activities: Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks. Property taxes, income taxes, franchise fees, fines and state and federal grants finance most of these activities.

Business-type activities: The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

Reporting the City's Most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 8 and provides detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's has three kinds of funds – governmental, proprietary and fiduciary.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)
(Continued)**

Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City considers the General Fund and the Street Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled other governmental funds.

Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported as Business-type activities in the Statement of Activities and Net Assets. The City has two enterprise funds – the Water and Sewer Funds.

Fiduciary funds – These funds are often used to account for assets that are held in a trustee or fiduciary capacity. The City's fiduciary funds are the Unclaimed Monies Fund, Fire Loss Claims Fund and the Municipal Court Fund which are all agency funds.

A Financial Analysis of the City as a Whole

Net Assets – Cash Basis

The City's combined net assets, resulting from cash basis transactions, increased from \$2,644,564 to \$2,878,830 between fiscal years 2007 and 2008. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had a decrease of \$128,348 and business-type activities had an increase of \$362,614 in net assets between 2007 and 2008.

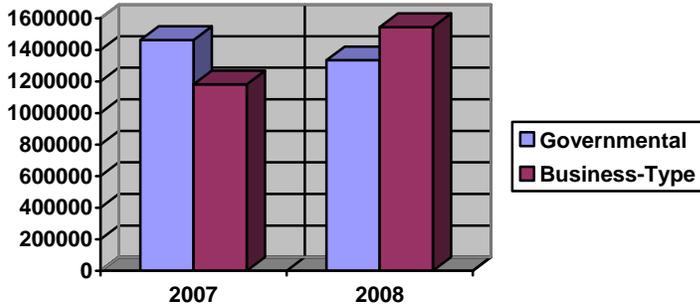
	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
Assets:						
Cash	\$1,462,902	\$1,334,554	\$1,181,662	\$1,544,276	\$2,644,564	\$2,878,830
Total Assets	1,462,902	1,334,554	1,181,662	1,544,276	2,644,564	2,878,830
Net Assets:						
Restricted:						
Pension obligations	24,709	6,442			24,709	6,442
Revolving Loans	125,173	129,947			125,173	129,947
Customer Deposits			89,290	91,060	89,290	91,060
Other Purposes	424,380	418,697			424,380	418,697
Unrestricted:	888,640	779,468	1,092,372	1,453,216	1,981,012	2,232,684
Total net Assets	<u>\$1,462,902</u>	<u>\$1,334,554</u>	<u>\$1,181,662</u>	<u>\$1,544,276</u>	<u>\$2,644,564</u>	<u>\$2,878,830</u>

Net assets of the City's governmental activities decreased 8.8 percent to \$1,334,554 primarily due to increases in expenditures. However, \$555,086 of those net assets are restricted as to the purposes they can be used for. Consequently, unrestricted net assets showed \$779,468 at the end of this year.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)
(Continued)**

Net Assets – Cash Basis



Changes from 2007 to 2008 reflect a net change of 8.9 percent for all activities with a decrease of 8.8 percent for governmental activities and an increase of 30.7 percent for business-type activities.

Changes in Net Assets – Cash Basis

For the year ended December 31, 2008 net assets of the primary government changed as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program Revenues:						
Charges for Services	\$ 666,380	\$ 690,525	\$3,436,526	\$3,546,254	\$4,102,906	\$4,236,779
Operating Grants & Contributions	399,777	404,396			399,777	404,396
Capital Grants	422,317	528,649			422,317	528,649
General Revenues:						
Property Taxes	429,717	387,829			429,717	387,829
Income Taxes	2,443,618	2,551,533			2,443,618	2,551,533
Grants or Contributions Net						
Restricted to Specific Programs	504,074	481,543			504,074	481,543
Interest Income	143,792	67,708			143,792	67,708
Miscellaneous	22,175	44,153	113,003	88,326	135,178	132,479
Debt Proceeds			350,202	277,500	350,202	277,500
Total Revenues	5,031,850	5,156,336	3,899,731	3,912,080	8,931,581	9,068,416
Expenses:						
General Government	1,138,919	1,215,200			1,138,919	1,215,200
Public Safety	2,288,944	2,373,418			2,288,944	2,373,418
Streets and Public Works	776,000	1,344,071			776,000	1,344,071
Health and Welfare	73,500	75,000			73,500	75,000
Economic Development	349,024	46,587			349,024	46,587
Culture and Recreation	129,579	134,023			129,579	134,023
Intergovernmental Expenses	97,997	96,385			97,997	96,385
Water			1,549,276	1,298,577	1,549,276	1,298,577
Sewer			2,316,620	2,250,889	2,316,620	2,250,889
Total Expenses	4,853,963	5,284,684	3,865,896	3,549,466	8,719,859	8,834,150
Increase/(Decrease) in Net Assets	\$ 177,887	(\$128,348)	\$ 33,835	\$ 362,614	\$ 211,722	\$234,266

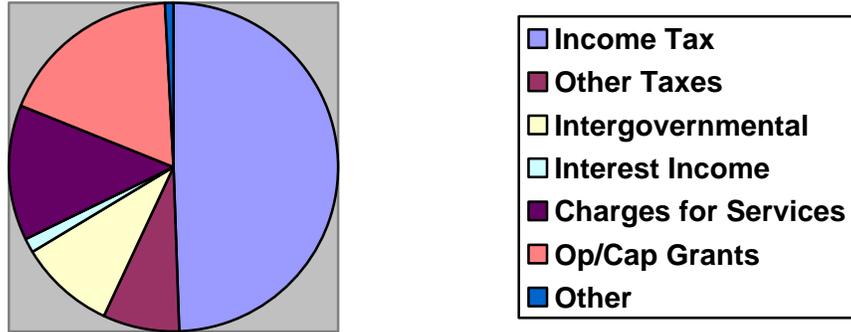
**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)
(Continued)**

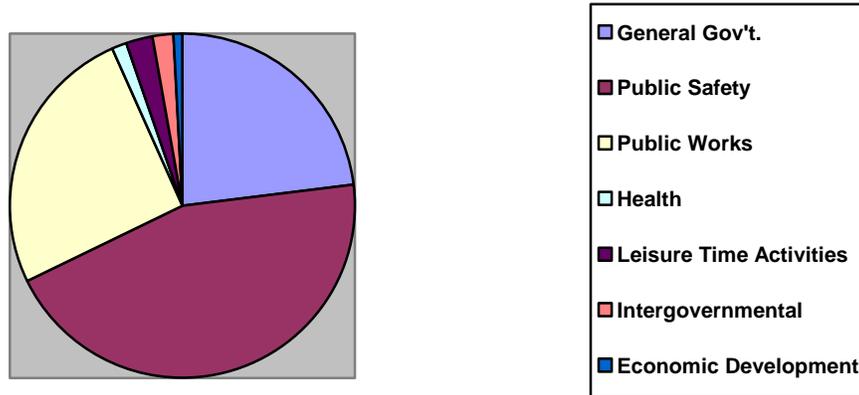
Governmental Activities

To aid in the understanding of the Statement of Activities and Net Assets, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expenditure)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Sources of Funds for Governmental Activities



Uses of Funds for Governmental Activities



For the year ended December 31, 2008, total expenses for governmental activities, resulting from cash basis transactions, amounted to \$5,284,684. Of those total expenses, taxpayers and other general revenues funded \$3,661,114, while those directly benefiting from the program funded only \$933,045 from grants and other contributions and \$690,525 from charges for services.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)
(Continued)**

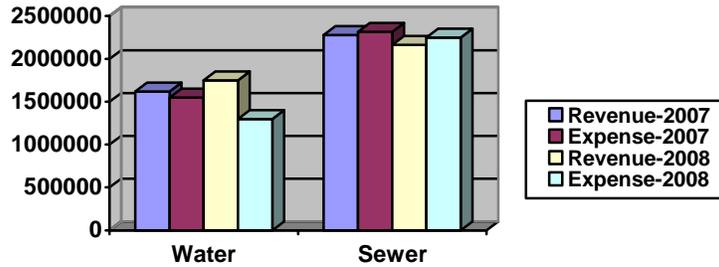
Net Cost of City of Kenton's Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2008	% Change	2007	2008	% Change
General Government	\$1,138,919	\$1,215,200	6.70%	\$ 542,242	\$ 585,772	8.03%
Public Safety	2,288,944	2,373,418	3.69%	2,288,944	2,372,158	3.64%
Public Works	776,000	1,344,071	73.21%	329,598	411,386	24.81%
Health	73,500	75,000	2.04%	73,500	75,000	2.04%
Economic Development	349,024	46,587	-86.65%	(27,778)	46,587	-267.71%
Leisure Time Activities	129,579	134,023	3.43%	60,986	73,826	21.05%
Intergovernmental	97,997	96,385	-1.64%	97,997	96,385	-1.64%
Totals	<u>\$4,853,963</u>	<u>\$5,284,684</u>	8.87%	<u>\$3,365,489</u>	<u>\$3,661,114</u>	8.78%

Business-Type Activities

In reviewing the business-type activities' net (expense)/revenue resulting from cash basis transactions, there are certain activities that need to be examined more closely. Water and sewer service activities together reported a net revenue/expense with a combined total of \$362,614 for 2008. Water had net revenue of \$450,033. Sewer had net disbursements in excess of revenue (loss) of \$87,419.

Business-Type Activities - Revenue and Expense



A Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,334,554, which is \$128,348 less than the year before. A decrease of \$109,173 in the City's General Fund made up a significant part of this loss. The primary reasons for the General Fund's loss mirror those highlighted in the analysis of governmental activities. The City's Street Fund reported a decrease of \$25,253 primarily as a result of an increase in public works expenditures.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into several categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in October 2007).
- Appropriation transfers within departments to reflect changes in departmental needs.
- Increases in appropriations to prevent budget overruns and to reflect unexpected increases in anticipated revenues.

For the year ended December 31, 2008 General Fund expenditures were \$257,336 below final appropriations while actual resources available for appropriations were \$237,516 above the final budgeted amount.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)
(Continued)**

Capital Assets

The City maintains records on its capital assets, however they are not reported in the financial statements or notes to the financial statements.

Long-Term Debt

At year-end the City had \$10.9 million in long-term debt outstanding – a decrease of 5.7 percent from last year. Governmental activities accounted for \$1,047,462 and business-type activities accounted for the remaining \$9,899,479 of long-term debt.

	City of Kenton Long-Term Debt					
	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
Capital Leases	\$ 229,767	\$ 162,780			\$ 229,767	\$ 162,780
Bond Obligations	811,000	747,000	\$ 36,000	\$ 304,500	847,000	1,051,500
OPWC Loans	154,947	137,682	88,366	82,475	243,313	220,157
OWDA Loans			10,282,275	9,512,504	10,282,275	9,512,504
Totals	<u>\$1,195,714</u>	<u>\$1,047,462</u>	<u>\$10,406,641</u>	<u>\$9,899,479</u>	<u>\$11,602,355</u>	<u>\$10,946,941</u>

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2009 the City's budget is fairly consistent with this year. The 2009 original appropriations budget is 0.8% more than the original 2008 appropriations budget.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Auditor's office at 111 W. Franklin Street, Kenton, Ohio 43326 or telephone at (419) 673-1310.

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET ASSETS AND ACTIVITIES - CASH BASIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

	Cash	Program Cash Receipts		
		Charges for	Operating Grants	Capital Grants
	Disbursements	Services	and Contributions	and Contributions
Governmental Activities:				
General Government	(\$1,215,200)	\$629,428		
Public Safety	(2,373,418)			\$1,260
Public Works	(1,344,071)	900	\$404,396	527,389
Health	(75,000)			
Economic Development	(46,587)			
Leisure Time Activities	(134,023)	60,197		
Intergovernmental Expenditures	(96,385)			
Total Government Activities	(5,284,684)	690,525	404,396	528,649
Business-Type Activities:				
Waterworks	(1,298,577)	1,698,319		
Sewer	(2,250,889)	1,847,935		
Total Business-Type Activities	(3,549,466)	3,546,254		
Total Activity	(8,834,150)	4,236,779	404,396	528,649

General Receipts:

Taxes

Property Taxes For:

General Purposes

Police Pension

Fire Pension

Grove Cemetery

Income Tax

Grants or Contributions Not

 Restricted to Specific Programs

Investment Income

Debt Proceeds

Miscellaneous

Total General Receipts

Increase/(Decrease) in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

Assets

Equity in Pooled Cash and Cash Equivalents

Net Assets

Restricted For:

Pension Obligations

Revolving Loan

Customer Water Deposits

Other Purposes

Unrestricted

Total Net Assets

The notes to the financial statements are an integral part of this statement.

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Funds	Business-Type Funds	Totals Funds
(\$585,772)		(\$585,772)
(2,372,158)		(2,372,158)
(411,386)		(411,386)
(75,000)		(75,000)
(46,587)		(46,587)
(73,826)		(73,826)
(96,385)		(96,385)
<u>(3,661,114)</u>		<u>(3,661,114)</u>
	\$399,742	399,742
	(402,954)	(402,954)
	(3,212)	(3,212)
<u>(3,661,114)</u>	<u>(3,212)</u>	<u>(3,664,326)</u>
255,618		255,618
29,495		29,495
29,495		29,495
73,221		73,221
2,551,533		2,551,533
481,543		481,543
67,708		67,708
	277,500	277,500
44,153	88,326	132,479
<u>3,532,766</u>	<u>365,826</u>	<u>3,898,592</u>
(128,348)	362,614	234,266
<u>1,462,902</u>	<u>1,181,662</u>	<u>2,644,564</u>
<u>1,334,554</u>	<u>1,544,276</u>	<u>2,878,830</u>
1,334,554	1,544,276	2,878,830
6,442		6,442
129,947		129,947
	91,060	91,060
418,697		418,697
779,468	1,453,216	2,232,684
<u>\$1,334,554</u>	<u>\$1,544,276</u>	<u>\$2,878,830</u>

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS FUND NET ASSETS AND CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND NET ASSETS
ENTERPRISE FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
Cash Receipts:				
Property and Other Taxes	\$280,893		\$132,211	\$413,104
Income Taxes	2,551,533			2,551,533
Charges for Services	66,293		60,197	126,490
Licenses and Permits	58,557	\$900		59,457
Fines and Forfeitures	405,852		78,965	484,817
Intergovernmental	414,933	326,957	667,183	1,409,073
Interest on Investments	62,458	1,213	4,037	67,708
Miscellaneous Receipts	9,516	19,457	3,648	32,621
Total Cash Receipts	<u>3,850,035</u>	<u>348,527</u>	<u>946,241</u>	<u>5,144,803</u>
Cash Disbursements:				
General Government:				
Legislative and Executive	651,552			651,552
Judicial	393,560		33,686	427,246
Public Safety	2,168,155		98,926	2,267,081
Public Works		629,490	602,091	1,231,581
Health	75,000			75,000
Economic Development	4,585		42,002	46,587
Leisure Time Activities			134,023	134,023
Intergovernmental Expenditures			96,385	96,385
Capital Outlay	105,193	112,490	14,550	232,233
Debt Service:				
Bond Principal Payment			64,000	64,000
Note Principal Payment			17,265	17,265
Interest and Fiscal Charges			41,730	41,730
Total Cash Disbursements	<u>3,398,045</u>	<u>741,980</u>	<u>1,144,658</u>	<u>5,284,683</u>
Receipts Over/(Under) Disbursements	451,990	(393,453)	(198,417)	(139,880)
Other Financing Sources/(Uses):				
Operating Transfers - In		366,000	204,495	570,495
Operating Transfers - (Out)	(570,495)			(570,495)
Other Financing Sources	9,332	2,200		11,532
Total Other Financing Sources/(Uses)	<u>(561,163)</u>	<u>368,200</u>	<u>204,495</u>	<u>11,532</u>
Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing (Uses)	(109,173)	(25,253)	6,078	(128,348)
Fund Balances - Beginning of Year	<u>888,640</u>	<u>71,781</u>	<u>502,481</u>	<u>1,462,902</u>
Fund Balances - End of Year	<u>779,467</u>	<u>46,528</u>	<u>508,559</u>	<u>1,334,554</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>779,467</u>	<u>46,528</u>	<u>508,559</u>	<u>1,334,554</u>
Fund Balances				
Reserved for Encumbrances	103,525	5,352	31,091	139,968
Unreserved	<u>675,942</u>	<u>41,176</u>	<u>477,468</u>	<u>1,194,586</u>
Total Fund Balances	<u>\$779,467</u>	<u>\$46,528</u>	<u>\$508,559</u>	<u>\$1,334,554</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS NET ASSETS AND CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND NET ASSETS
ENTERPRISE FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals (Memorandum Only)</u>
Operating Receipts:			
Charges for Services	\$1,698,319	\$1,847,935	\$3,546,254
Other Operating Receipts	1,441	38,035	39,476
Total Operating Receipts	<u>1,699,760</u>	<u>1,885,970</u>	<u>3,585,730</u>
Operating Disbursements:			
Personnel Services	634,787	515,287	1,150,074
Contract Services	175,223	323,396	498,619
Materials and Supplies	389,053	113,448	502,501
Capital Outlay	46,107	2,472	48,579
Total Operating Disbursements	<u>1,245,170</u>	<u>954,603</u>	<u>2,199,773</u>
Operating Income	<u>454,590</u>	<u>931,367</u>	<u>1,385,957</u>
Non-Operating Receipts/(Disbursements)			
Bond Retirement		(9,000)	(9,000)
Bond Proceeds		277,500	277,500
Note Retirement		(277,500)	(277,500)
Loan Retirement	(5,891)	(769,740)	(775,631)
Interest Expense		(239,526)	(239,526)
Other Non-Operating Receipts	48,850		48,850
Other Non-Operating (Disbursements)	(47,516)	(520)	(48,036)
Total Non-Operating Receipts/(Disbursements)	<u>(4,557)</u>	<u>(1,018,786)</u>	<u>(1,023,343)</u>
Receipts Over (Under) Disbursements	<u>450,033</u>	<u>(87,419)</u>	<u>362,614</u>
Total Net Assets - Beginning of Yr	<u>993,557</u>	<u>188,105</u>	<u>1,181,662</u>
Total Net Assets - End of Year	<u><u>1,443,590</u></u>	<u><u>100,686</u></u>	<u><u>1,544,276</u></u>
Assets			
Equity in Pooled Cash & Cash Equivalents	1,443,590	100,686	1,544,276
Net Assets			
Unreserved	<u>1,443,590</u>	<u>100,686</u>	<u>1,544,276</u>
Total Net Assets	<u><u>\$1,443,590</u></u>	<u><u>\$100,686</u></u>	<u><u>\$1,544,276</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF KENTON
HARDIN COUNTY

STATEMENT OF CASH BASIS NET ASSETS AND CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND NET ASSETS
AGENCY FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

Cash Receipts	\$1,266,424
Cash Disbursements	<u>1,261,949</u>
Changes in Net Assets	4,475
Net Assets - Beginning of Year	<u>99,091</u>
Net Assets - End of Year	<u><u>\$103,566</u></u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$103,566</u>
Net Assets	
Unrestricted	<u><u>\$103,566</u></u>

The notes to financial statements are an integral part of this statement.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. DESCRIPTION OF THE REPORTING ENTITY

The City of Kenton (the City) is a home rule municipal corporation established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a council-mayor form of government. The Mayor is the chief executive and administrative officer and is elected for a four-year term. The legislative authority is vested in a seven-member Council, with a presiding President of Council, who are elected to two-year terms. Other elected officials consist of the auditor, treasurer and law director who are elected to four-year terms. The City provides the following services: police and fire safety; street maintenance and sanitation; parks and recreation; water and sewer utilities, and a staff to provide essential support to these services. These activities comprise the primary government of the City and whose activities are directly responsible to Council and the Mayor. They are, therefore, included in the reporting entity. The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the city approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The City participates in three jointly governed organizations and an insurance pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, BKP Ambulance District, and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 11 and 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the City chooses to prepare its financial statements on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and of activities and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statement

The statement of activities and net assets – cash basis displays information about the City as a whole. This statement includes the financial activities of the City, except for fiduciary funds.

The net assets section of this statement presents the financial condition of the governmental and business-type activities of the City at year-end. The activities section of this statement presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the City.

2. Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental and enterprise fund/business type activity financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

3. Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. The City has two governmental funds classified as major funds:

General Fund – The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Street Fund – The Street Fund accounts for state shared motor vehicle license tax and gas tax money for the repair and maintenance of City streets.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Proprietary Funds:

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City has the following major Enterprise Funds which are the City's only Enterprise Funds:

Water Fund – This fund accounts for the operations of the water distribution system and related expenses, including capital improvements and debt services.

Sewer Fund – This fund accounts for the operations of the sanitary sewer collection and treatment system and related expenses, including capital improvement and debt service.

5. Fiduciary Funds:

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The City's Fiduciary Funds are Agency Funds to account for unclaimed money, fire loss claims and the activity of the Municipal Court. These Funds are not included in the City's government wide financial statements.

C. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". Individual fund integrity is maintained through City records.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

The City invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price at which the investment could be sold at December 31, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. For calendar year 2008, interest receipts amounted to \$67,708 in which \$62,458 was recorded in the General Fund (of which \$40,308 is assigned from other funds); \$1,213 was recorded in the Street Fund, \$483 in the State Highway Fund, \$364 in the CDBG Fund and \$3,190 in the Revolving Loan Fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator.

E. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as revenues when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in Proprietary funds are recorded as revenue when the grant is received.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Employer Contributions to Cost-Sharing Pension Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the City.

I. Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

Long-term obligations of the governmental funds and business type funds are identified in Note 8.

J. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements. During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditure/expense in the reimbursed fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Cash Assets

Net cash assets consist of cash receipts and balances reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The City has restricted net assets for pension obligations, revolving loan balances and customer water deposits. Restricted for Other Purposes is comprised of net assets restricted for grants. The City did not have any net assets restricted by enabling legislation.

L. Fund Balance Reserves

The City reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

4. DEPOSITS AND INVESTMENTS

The City Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook amounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or other local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$549,365 of the City's bank balance of \$910,344 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

At December 31, 2008, the City invested \$2,172,678 in STAR Ohio.

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the City Auditor from investing in anything other than as identified in the Ohio Revised Code.

STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

5. TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed in 2005.

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2008 was \$4.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.00 per \$1,000 of assessed valuation for all other real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.9111 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.9761 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City through the County by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property, for the fiscal year ended December 31, 2008 was 6.25% of true value for inventory and 6.25% of true value for machinery and equipment.

The assessed values of real property, public utility property, and tangible personal property upon which 2008 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$ 63,729,940
Commercial/Industrial	30,468,390
Public Utilities	20,190
Tangible Personal	8,502,770
Public Utility Personal	3,738,930
Total	<u>\$106,460,220</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

5. TAXES (Continued)

Real property taxes for tax year 2008 are payable annually or semi-annually. If paid annually, payment is due February 11, 2009. If paid semi-annually, the first payment is due February 11, 2009 with the remainder payable by July, 2009. Under certain circumstances, state statute permits earlier or later payment dates to be established.

The residents of the City support the Grove Cemetery Association (the Cemetery), a jointly governed organization described further in Note 12, through a tax levy. The levy for the Cemetery is voted millage. During 2008, the Cemetery received \$96,385 in tax revenue and related homestead and rollback revenue, from the residents of the City. This money is reported in as tax revenue and intergovernmental expenditures on the financial statements.

B. City Income Tax

The City levies an income tax of 1.5% on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

Residents of the City are granted a full credit for taxes paid other Ohio municipalities. The receipts of the City Income tax and the administrative costs associated with their collection are accounted for in the General Fund.

6. LEASES

A. Capital Leases

During calendar year 2000, the City entered into an equipment lease for a fire truck for a period of ten years. The debt associated with this lease will be paid back out of the General Fund. The City made an initial down payment of \$150,000 for the fire truck.

During 2005, the City entered into a capital lease for 911 recorder equipment for five years. The lease payments will be made from the General Fund.

During 2007, the City entered into an equipment lease for a new dump truck for a period of four years. The debt associated with the dump truck will be paid out of the Street Fund. The City made an initial downpayment of \$32,268.

Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2008.

Fiscal Year Ending December 31	Fire Truck	911 Recording Equipment	Dump Truck	Total Capital Leases
2009	\$ 57,287	\$2,220	\$20,095	\$ 79,602
2010	57,287	740	20,095	78,122
2011			20,095	20,095
Total Minimum Lease Payments	114,574	2,960	60,285	177,819
Less: amount representing interest	(8,519)	(179)	(6,341)	(15,039)
Present Value of minimum lease pmts	<u>\$106,055</u>	<u>\$2,781</u>	<u>\$ 53,944</u>	<u>\$162,780</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

6. LEASES (Continued)

B. Operating Lease

The City leases land under a non-cancelable operating lease. The lease is for a term of ninety-nine years commencing on August 1, 2000, and ending on July 31, 2099, with lease payments being renegotiable after fifty (50) years. Lease payments for the first five years were \$6,000 per year and increase five percent for each subsequent five year period for the first 50 years. The lease payments are being paid from the Water Fund.

The future minimum lease payments for the lease through 2049 are as follows:

<u>Fiscal year Ending December 31,</u>	<u>Amount</u>
2009	\$ 6,300
2010	6,615
2011	6,615
2012	6,615
2013	6,615
2014-2018	34,398
2019-2023	36,118
2024-2028	37,924
2029-2033	39,820
2034-2038	41,811
2039-2043	43,902
2044-2048	46,097
2049	<u>9,308</u>
Total minimum lease payments	<u><u>\$322,138</u></u>

7. SHORT TERM DEBT

The City's note transactions for the year ended December 31, 2008 were as follows:

	<u>Interest Rate</u>	<u>Balance December 31, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2008</u>
Wastewater Treatment Plant Bond Anticipation Note (2007)	3.95%	\$177,500		\$177,500	
Radio-Read Meter Bond Anticipation Note (1 st renewal)	3.95%	\$100,000		\$100,000	

According to Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections.

The City issued a bond anticipation note in the amount of \$177,500 on April 5, 2007 to provide partial funding for a settlement reached regarding Case No. 20031029 CVH in the Common Pleas Court of Hardin County, Ohio pertaining to the wastewater treatment plant project. On April 20, 2007, the City issued a bond anticipation note in the amount of \$100,000 for replacement of additional City water meters with "radio-read" meters. Bonds were issued April 4, 2008 to refinance both Sewer Fund bond anticipation notes. The bonds will be paid from user charges in the Sewer Fund and mature in 2018.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

8. LONG TERM DEBT

The City's long-term debt transactions for the year ended December 31, 2008, are summarized below:

	<u>Debt Principal Outstanding 1/1/08</u>	<u>Debt Issued in 2008</u>	<u>Debt Principal Retired in 2008</u>	<u>Debt Principal Outstanding 12/31/08</u>
Governmental Activities				
General Obligation Issues:				
1999 SW Pool Const Bond	\$ 775,000		\$55,000	\$ 720,000
2006 Street Sweeper Bond	36,000		9,000	27,000
Total General Obligation Bonds	<u>811,000</u>		<u>64,000</u>	<u>747,000</u>
1999 OPWC Loan-Street	17,200		8,600	8,600
2003 OPWC Loan-Street	9,542		1,735	7,807
2006 OPWC Loan-Street	128,205		6,930	121,275
Total General Obligation Loans	<u>154,947</u>		<u>17,265</u>	<u>137,682</u>
Total Governmental Activity:	965,947		81,265	884,682
Business Type Activities				
Sewer Fund				
2006 Street Sweeper Bonds	36,000		9,000	27,000
2008 WWTP/System Imp Bonds		\$277,500		277,500
Total Bonds	<u>36,000</u>	<u>277,500</u>	<u>9,000</u>	<u>304,500</u>
1996 OWDA Wastewater Improvement Loan (NIS)	727,424		65,792	661,632
1998 OWDA Wastewater Improvement Loan (WWTP Exp)	9,554,820		703,948	8,850,872
Total Sewer Fund	<u>10,318,244</u>	<u>277,500</u>	<u>778,740</u>	<u>9,817,004</u>
Waterworks Fund				
2003 OPWC Waterworks Loan	88,366		5,891	82,475
Total Business Type Activity	<u>10,406,610</u>	<u>277,500</u>	<u>784,631</u>	<u>9,899,479</u>
Total Debt	<u>\$11,372,557</u>	<u>\$277,500</u>	<u>\$865,896</u>	<u>\$10,784,161</u>

Outstanding general obligation bonds and loans consist of street improvements, water and sewer system improvements issues and swimming pool construction. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

1999 Various Purpose Bonds

During 1999, the City issued various purpose bonds in the total amount of \$2,090,000 of which \$1,200,000 was used to retire bond anticipation notes issued for the construction of a municipal swimming pool and \$890,000 to retire outstanding bonds for the municipal building. The bonds have stated interest rates between 3.3 and 5.4 percent. The \$890,000 refunding portion of the bonds matured in 2005 and the municipal swimming pool portion will mature in 2018.

The 1999 Various Purpose Bonds due December 1, 2018 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2013, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

8. LONG TERM DEBT (Continued)

<u>Year</u>	<u>Principal Amount</u>
2013	\$75,000
2014	75,000
2015	75,000
2016	80,000
2017	85,000

Unless otherwise called for redemption, the remaining \$90,000 principal amount of the Bonds due December 1, 2018, is to be paid at stated maturity.

The Bonds maturing on December 1, 2009 and thereafter are subject to optional redemption, in whole or part, on any date in inverse order of maturity and by lot within a maturity, at the option of the City on or after December 1, 2009, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
December 1, 2009 through November 30, 2010	102%
December 1, 2010 through November 30, 2011	101%
December 1, 2011 and thereafter	100%

2006 Street Sweeper Bonds

The City issued \$90,000 general obligation bonds at 4.31 percent interest in 2006 which were used to purchase a new street sweeper. These bonds will mature in 2011 and will be retired from both the Governmental Debt Retirement Funds and from the Sewer fund.

1999 Ohio Public Works Commission Loan (OPWC)

In 1999, the City obtained a zero percent interest 10 year loan in the amount of \$86,000 from the Ohio Public Works Commission for the West Franklin Street Reconstruction project. This loan matures on January 1, 2010 and is a general obligation of the City. This loan is being paid from the Governmental Debt Retirement Funds.

2003 Ohio Public Works Commission Loan (OPWC)

During 2003, the City obtained a zero percent interest 8 year loan from the OPWC for the Pattison Avenue Storm Sewer Collections System project – a joint ditch maintenance project between the City and Hardin County. Initially this loan was approved in the amount of \$95,506, however the actual project cost was less than originally anticipated, so the final loan amount was \$13,880. This debt is a general obligation of the City and matures on July 1, 2013. This loan is being paid from Governmental Debt Retirement Funds.

2006 Ohio Public Works Commission Loan (OPWC)

The City obtained a zero percent interest 20 year loan from the OPWC for the Storm Water Collection System Improvement Project during 2006. This loan is in the amount of \$138,600 and will mature in 2026. Loan payments will come from the Governmental Debt Retirement Fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

8. LONG TERM DEBT (Continued)

1996 Ohio Water Development Authority Loan (OWDA)

The City began the first phase towards meeting the requirements of the Ohio Environmental Protection Agency regarding improvements needed at the Wastewater Treatment Plant when they began the design for the North Interceptor Sewer during 1996. Funding for the design and construction phase of this project came from a loan in the amount of \$1,307,587 at 2.2 percent interest for 20 years granted by the Ohio Water Development Authority (OWDA). This loan will be repaid from user charges.

1998 Ohio Water Development Authority Loan (OWDA)

The City began the construction phase of the Wastewater Treatment Plant Expansion Project during 1998 with funding for this project provided by an estimated \$14,665,000 loan at 2.2 percent interest for 20 years granted by the OWDA. The final disbursement was made during 2007 in the amount of \$72,702 to complete funding of the litigation settlement regarding the plant. This loan will be repaid from user charges.

2003 Ohio Public Works Commission Loan (OPWC)

During 2003, the City obtained a zero percent interest 20 year loan in the amount of \$117,821 from the OPWC for the water treatment plant and water system Improvements project. This loan will mature in 2023 and will be retired utilizing utility charges.

2008 WWTP/System Improvement Bonds

The City issued \$277,500 general obligation bonds on April 4, 2008 at 3.95% interest to refinance the bond anticipation notes issued for the Sewer Fund's share of the radio-read water meter project and partial funding for the litigation settlement regarding the sewer plant. These bonds will be repaid from user charges.

The annual requirements to amortize all long term debt outstanding as of December 31, 2008, including interest payments of \$1,519,594 are as follows:

	G.O. Bonds	OWDA Loans	OPWC Loans	Total
2009	\$ 150,898	\$ 991,738	\$ 23,156	\$ 1,165,792
2010	151,386	991,738	14,556	1,157,680
2011	151,574	991,738	14,556	1,157,868
2012	128,840	991,738	14,556	1,135,134
2013	129,429	991,739	13,689	1,134,856
2014-2018	625,221	4,877,257	64,105	5,566,583
2019-2023		910,303	58,214	968,517
2024-2028			17,325	17,325
Total	1,337,348	10,746,250	220,157	12,303,755
Less Interest	(285,848)	(1,233,746)		(1,519,594)
Principal	<u>\$1,051,500</u>	<u>\$9,512,504</u>	<u>\$220,157</u>	<u>\$10,784,161</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

9. PENSION OBLIGATIONS

A. Ohio Public Employees Retirement System (OPERS)

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans described as follows: (1) The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; (2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon; and (3) The Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The member contribution rate for 2008 was 10.0% for members in state and local classifications. The 2008 employer contribution rate for local government employers was 14.00% of covered payroll; 7.00% of which was used for pension obligations. The City's contributions for pension obligations to OPERS for the years ended December 31, 2008, 2007 and 2006 were \$130,730, \$135,235, and \$139,057, respectively; 100% has been contributed for all three years.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters, 12.75% and 17.25% respectively for pension obligations. The City's contributions to OP&F were \$87,285 and \$100,050 for the year ended December 31, 2008, \$84,297 and \$96,506 for the year ended December 31, 2007 and \$70,743 and \$81,265 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. Approximately 76% has been contributed for 2008. The unpaid contributions for 2008 are \$21,097 and \$24,711, respectively.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

10. POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377

A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan. The portion of employer contributions for state and local employers allocated to health care was 7.00% for 2008. Actual employer contributions for 2008 which were used to fund other post-employment benefits were \$130,730.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan

B. Ohio Police and Fire Pension Fund

The City of Kenton contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple employer defined post-employment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

The Ohio Police and Fire Pension Fund (OP&F) provides access to post retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions to OP&F for the years ending December 31, 2008, 2007 and 2006 for police and firefighters, respectively, were \$133,463 and \$139,152, \$128,904 and \$134,235 and \$117,404 and \$120,022, of which \$46,178 and \$39,102, \$44,607 and \$37,729 and \$46,661 and \$38,757 was allocated to the healthcare plan.

11. RISK MANAGEMENT

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductibles.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

11. RISK MANAGEMENT (Continued)

A. Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP. If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

B. Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

C. Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006 (the latest information available):

	2007	2006
Assets	\$37,560,071	\$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Retained Earnings	\$20,219,246	\$19,384,290

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$161,669. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

11. RISK MANAGEMENT (Continued)

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2006	\$140,756
2007	\$139,371
2008	\$140,582

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

12. JOINTLY GOVERNED ORGANIZATIONS

Grove Cemetery Association

The Grove Cemetery Association (the Association) is a jointly-governed organization consisting of Buck, Pleasant and Goshen townships and the City of Kenton. The Association is governed by a board of directors consisting of one representative from each township and the City. The degree of control exercised by any participating entity is limited to its representation on the board.

Operating funds for the Association are provided from property taxes assessed against property owners located within the townships and the City making up the Association and charges assessed for services of the Association. The City provides no other funds to the Association. Financial information may be obtained from Clerk, Roger Crowe at 15443 St. Rt. 309, Kenton, OH 43326.

Hardin County Regional Planning Commission

The Hardin County Regional Planning Commission (the Commission) is a jointly-governed organization between the County, the Municipalities, and the Townships within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of twenty seven members, any of which may hold any other public office. The City is represented by one member.

The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services of the County. Each participating government may be required to contribute an assessment per capita, according to the latest federal census, in any calendar year in which the revenue is needed. Financial information can be obtained from Mark Doll, Director, One Courthouse Square, Suite 130, Kenton, Ohio 43326.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

BKP Ambulance District

The BKP Ambulance District(the District) is a jointly-governed organization between the City and Buck, Cessna, Dudley, Goshen, Lynn and Pleasant Townships in Hardin County. A seven-member Board of Trustees governs the District. Each political subdivision within the District appoints one member. Financial information can be obtained from Vicki Collins, Clerk, 439 South Main Street, Kenton, Ohio 43326.

13. TRANSFERS

During 2008, the General Fund made transfers to other governmental funds, in the amount of \$570,495, to the Street Fund, the R.S.P.O. Fund, the Bond Retirement Fund, and the Note Retirement Fund to subsidize various programs and to pay debt obligations

14. CONTINGENT LIABILITIES

A. Grants

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

B. Litigation

The City had been named as a defendant in a lawsuit involving an injury. The City has been dismissed by summary judgment proceedings and is no longer a party to said action.

15. SUBSEQUENT EVENTS

The City has been approved to participate with the Ohio Department of Transportation (ODOT) on a State Highway Repaving Project for 2009. The City is to be responsible for funding 100% of the construction of handicap curb ramps, curbs, sidewalks, partial and/or full depth pavement repairs, painting of the longitudinal (centerline) and auxiliary pavement markings (stop bars, pedestrian crossings, railroad markings), and adjustment of any manholes or other appurtenances that are necessary inside the City corporation limits. The City is also required to pay 20% of the cost of the grinding and paving of asphalt, maintenance of traffic and mobilization for the project. Based on ODOT's estimate, the City's cost will be \$410,670. The City has received a zero interest loan grant from Ohio Public Works Commission to fund this cost. The zero interest loan will be repaid from the City's Debt Retirement Fund.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Beginning Budgetary Fund Balance:	\$808,190	\$808,190	\$808,190	
Resources (Inflows):				
Taxes	2,664,373	2,664,373	2,832,426	\$168,053
Charges for Services	66,500	66,500	66,293	(207)
Licenses and Permits	43,700	43,700	58,557	14,857
Fines and Forfeitures	332,500	332,500	405,852	73,352
Intergovernmental	399,778	399,778	414,933	15,155
Interest on Investments	100,000	100,000	62,458	(37,542)
Miscellaneous Receipts	5,000	5,000	9,516	4,516
Other Financing Sources		10,000	9,332	(668)
Total Resources (Inflows):	3,611,851	3,621,851	3,859,367	237,516
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	731,431	745,081	667,846	77,235
Judicial	438,494	438,494	400,915	37,579
Public Safety	2,376,449	2,376,449	2,246,954	129,495
Health	75,000	75,000	75,000	
Economic Development	4,585	4,585	4,585	
Capital Outlay	119,288	119,288	106,270	13,018
Other Financing Uses				
Transfers Out	564,004	570,504	570,495	9
Total Charges to Appropriations:	4,309,251	4,329,401	4,072,065	257,336
Net Change to Fund Balance	(697,400)	(707,550)	(212,698)	494,852
Prior Year Encumbrances Appropriated	80,450	80,450	80,450	
Ending Budgetary Balance:	\$191,240	\$181,090	\$675,942	\$494,852

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$41,797	\$41,797	\$41,797	
Resources (Inflows):				
Licenses and Permits	1,000	1,000	900	(\$100)
Intergovernmental	330,000	330,000	326,957	(3,043)
Interest on Investments	2,000	2,000	1,213	(787)
Miscellaneous Receipts	5,000	9,030	19,457	10,427
Other Financing Sources			2,200	2,200
Transfers In	366,000	366,000	366,000	
Total Resources (Inflows)	<u>704,000</u>	<u>708,030</u>	<u>716,727</u>	<u>8,697</u>
Charges to Appropriations (Outflows):				
Public Works	649,868	662,397	634,842	27,555
Capital Outlay	121,704	113,204	112,490	714
Total Charges to Appropriations:	<u>771,572</u>	<u>775,601</u>	<u>747,332</u>	<u>28,269</u>
Net Change to Fund Balance	(67,572)	(67,571)	(30,605)	36,966
Prior Year Encumbrances Appropriated	<u>29,984</u>	<u>29,984</u>	<u>29,984</u>	
Ending Budgetary Balance:	<u>\$4,209</u>	<u>\$4,210</u>	<u>\$41,176</u>	<u>\$36,966</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

Basis of Accounting

The budget is prepared on the same cash basis as applied to the funds in the basic financial statements.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinances, all of which are prepared on the cash basis as required by the County Budget Commission. All funds, other than Agency Funds, are legally required to be budgeted and appropriated. The certificate of estimated resources and the appropriation ordinances are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified. All changes in appropriated amounts require action by City Council.

Tax Budget – The Hardin County Budget Commission has adopted a resolution waiving required adoption of the annual tax budget for subdivisions that file their prior year financial statement with the Commission by June 30th and which either have no public debt or which have public debt and file additional debt-related information with the Commission.

Estimated Resources – Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the estimated fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures/expenses from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about January 1, the certificate is amended to include the actual unencumbered fund balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during 2008.

Appropriations – By March 31, the annual appropriation ordinance must be legally enacted by the City at the fund, department, and major object level which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the City may pass a temporary appropriation measure to meet the ordinary expenses of the City. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission. Any revisions that alter the total of any fund appropriation or alter total appropriations within an object of a department must be approved by City Council. Council may pass supplemental fund appropriations so long as the total appropriation by fund does not exceed the amounts set forth in the most recent amended certificate of estimated resources. During the year, several supplemental appropriations were adopted. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

Budgeted Level of Expenditure/Expense – Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures/expenses plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and object levels, which include personal services, materials and supplies, contractual services, other expenditures/expenses, capital outlay and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges.

Lapsing of Appropriations - Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Encumbrances – Encumbrance accounting is utilized by City funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. Encumbrances outstanding at year end appear as a reserve to the fund balance and as the equivalent of expenditures on the budgetary comparison in order to demonstrate legal compliance. This encumbrance authority is carried forward to the next fiscal year and is reported in the “Original” and “Final Budget” amount for budgetary comparisons. If the actual expenditures are less than the amount encumbered, the excess reserve is closed to the unreserved fund balance.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Kenton
Hardin County
P.O. Box 220
Kenton, Ohio 43326

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 11, 2009, wherein we noted the city uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the City's management in a separate letter dated June 11, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

We also noted a certain noncompliance or other matter that we reported to the City's management in a separate letter dated June 11, 2009.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management and Members of Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 11, 2009

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2008

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Adm. Code Section 117-2-03(B) requires the City to file annual financial reports which are prepared using generally accepted accounting principles. However, the City prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the City may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the City should prepare its financial statements according to generally accepted accounting principles.

OFFICIALS' RESPONSE

City Council passed Resolution #04-003 on February 23, 2004 that stated "to be more cost efficient....That, effective fiscal year 2003, the City of Kenton will report on a cash basis as opposed to GAAP and/or GASB 34."

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Rev. Code Sec. 117.38 & Ohio Admin. Code Section. 117-2-03(B) – The City did not prepare financial statements in accordance with generally accepted accounting principals (GAAP)	No	Repeated as finding 2008-001



Mary Taylor, CPA
Auditor of State

CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 7, 2009**